TESTIMONY OF R. H. HALL, JR.

FOR

DUKE POWER COMPANY

SCPSC DOCKET NO. 96-005-E

Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION WITH DUKE POWER COMPANY.

A. My name is R. H. Hall, Jr., and my business address is 400 South Tryon Street, Charlotte, North Carolina. I am General Manager, Fuels Purchasing for Duke Power Company.

Q. STATE BRIEFLY YOUR EDUCATION, BUSINESS BACKGROUND AND PROFESSIONAL AFFILIATIONS.

A. I attended the West Virginia Institute of Technology and graduated with a BS in Engineering in 1964. During college, I worked for a coal company and also for a mining equipment company. I joined Mill-Power Supply Company as a fuel trainee in the summer of 1964, progressed through various fuel purchasing positions and was appointed to my present position in March, 1978. I am a member of the North Carolina Coal Institute and the American Society of Mining, Metallurgical and Petroleum Engineers, Inc.

Q. MR. HALL, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have testified in connection with the applications by the Company to adjust its electric rates and charges based solely on changes in the cost of fuel. My last testimony was presented in Docket No. 95-006-E.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to furnish information relating to our fuel purchasing and practices for the period October, 1995 - March, 1996. My testimony will also include a summary of our fuel purchases and fuel inventories.

Q. MR. HALL, CAN YOU PROVIDE A SUMMARY OF DUKE'S FUEL PROCUREMENT PRACTICES?

A. Yes. The Company continues to follow the same procurement practices discussed in previous testimony, and a summary of those practices is as follows:

1. Estimating Fuel Requirements. Fuel requirements are estimated annually based on input data from several departments, including Forecasting, System Planning, Nuclear Production, Fossil Production, Operating and Fuel Purchasing.

2. Inventory Requirements. Monthly and annual fuel inventory requirements for each station and the system are determined after considering the Company's purchasing and production requirements. Final review and approval are provided by Duke's Executive Committee.

3. Covering of Fuel Requirements. On a monthly and annual basis, reviews are made of existing contracts and projected consumption to determine the need for additional spot or contract supplies.

4. Qualified Suppliers. A list of qualified suppliers is maintained along with detailed historical records of their performance and capabilities as to quantity, quality, loading capacities, etc. Invitations to bid are distributed to all qualified suppliers to cover additional or future contract needs.

5. Bid Evaluation. Contracts are awarded after a complete evaluation cycle including an on-site visit to the source to determine the capabilities of the suppliers.

6. Spot Purchases. To supplement our fuel supply, entry into the spot market is made on a month-by-month basis.

7. Expediting. All orders are expedited (monitored) closely as to performance against schedule quantity, quality, and proper bills of lading, etc. This expediting data is used to prepare a monthly performance report on each supplier.

8. Quality Control. The Company samples and analyzes all coal received at each station. These analyses are monitored closely against contract specifications and serve as the basis for final price determinations. All coal is also weighed at each station to verify freight charges assessed by the railroads.

9. Audits. The Company has audit rights in all its contracts. A formal audit of each contract is conducted by Duke's Internal Audit Department on a specified frequency or at any time a price adjustment is requested under the terms of the contract.

Q. YOUR TESTIMONY INCLUDES EXHIBITS. WERE THESE EXHIBITS PREPARED BY YOU OR AT YOUR DIRECTION AND UNDER YOUR SUPERVISION?

A. Yes. The exhibits were either prepared by me or at my direction and under my supervision.

Q. WHAT IS SHOWN ON HALL EXHIBIT 1?

A. Hall Exhibit 1 is a summary of certain fuel statistics for the period October, 1995 - March, 1996. The Exhibit shows the quantities consumed, quantities purchased, and the weighted average unit price for each type of fuel.

The average price of our coal decreased $3.52 per ton when compared to the previous six-month period. Both the mine price and transportation portions declined. The greatest reduction ($2.90 per ton) was in the average mine price. This resulted from the Westmoreland buyout, the replacement of expiring

contracts with lower market based contracts, and the renegotiation of several existing contracts that allowed for market reopeners. Spot purchases accounted for 28% of our total purchases and the price for this coal remained relatively flat at approximately $24 per ton f.o.b. mine. The following tabulation shows the monthly quantities of contract and spot coal purchased:

MONTH	CONTRACT	SPOT
OCTOBER	725,368	422,730
NOVEMBER	741,593	323,914
DECEMBER	631,678	390,120
JANUARY	560,201	203,048
FEBRUARY	799,818	155,427
MARCH	825,819	204,959
TOTALS	4,284,477	1,700,198

Demand for coal remained strong throughout the period as consumers attempted to replenish low inventories caused by heavy summer burns, however, stockpiles were reduced even more during the January and February winter storms. Coal production and transportation were sharply curtailed during these months. Most utilities are presently restoring inventories in preparation of the summer season.

When compared to the previous six month period, prices increased $0.02 per gallon of oil and $0.44 per MCF of natural gas. This was attributable to the winter heating demand.

Uranium prices have increased due to import restrictions, reduced production, and increased mining costs.

Q. WHAT IS HALL EXHIBIT 2?

A. Hall Exhibit 2 shows the inventories for each type of fuel at the beginning and end of this reporting period. Coal inventories were reduced only 44,000 tons over the period, however, system inventory actually dropped to less than 1.1 million tons during early February's snow and ice storms which prevented production and rail deliveries. We will continue to buy additional quantities of spot coal during the next three months to prepare for the summer burn. We want this replenishment to be a gradual and controlled process so that prices are not pushed to higher levels by a short term demand.

Oil inventories were allowed to decline more than 3 million gallons. This decision was based on the forecast that oil would be readily available at lower prices in the spring than those prices being paid in January and February. Lower oil inventories are more acceptable during spring and summer months when natural gas is again available on an interruptible basis.

Q. WHAT DO YOU FORESEE AS TO FUEL PRICES AND AVAILABILITY IN THE NEXT SIX MONTHS?

A. Coal supply should match or exceed demand through the month of June. Demand should increase during the summer season, but this is dependent primarily on the weather. Prices should remain flat. Our average price per ton could decline as the contract prices are reduced while buying more spot tonnage.

Oil and natural gas should be readily available at prices lower than those during this test period.

Q. MR. HALL, DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

HALL EXHIBIT 1

FUEL PURCHASES AND CONSUMPTION

OCTOBER, 1995 - MARCH, 1996

COAL	
Tons Burned	6,071,231
Tons Purchased	5,984,675
Avg. Mine Price/Ton	$28.36
Avg. Frt. Price/Ton	$9.91
Avg. Delivered Price/Ton	$38.27
Avg. Delivered Price/MMBtu	$1.5429
OIL	
Gallons Consumed	12,311,520
Gallons Purchased	8,706,466
Avg. Price/Gallon Purchased	$0.5680
NATURAL GAS	
Mcf. Purchased	369,290
Avg. Price Mcf.	$2.7102
URANIUM	
Pounds Purchased	1,443,925
Avg. Price/Pound	$13.46

HALL EXHIBIT 2

FUEL INVENTORIES

	9/30/95	3/31/96
COAL (TONS)	1,558,751	1,514,748
#2 OIL (GALLONS)	13,045,311	9,404,869
URANIUM (POUNDS)	1,534,994	1,098,227